

2008 FORM 990 TIPS AND FAQs

REPORTING OF CERTAIN ACTIVITIES OUTSIDE OF THE UNITED STATES

Schedule F is a new schedule required for 2008 tax years. It requires the reporting of activities outside of the United States. Questions have arisen regarding the new foreign activity reporting requirements, including how passive and related organization investments should be reported on Schedule F.

These FAQs do not address or modify the reporting requirements that might apply to your organization in the case of certain foreign activities, such as Form TD F 90-22.1, *Report of Foreign Bank and Financial Accounts* (commonly referred to as FBAR reporting), Form 5471, *Information Returns of U.S. Persons With Respect to Certain Foreign Corporations*, or Form 926, *Return by a U.S. Transferor of Property to a Foreign Corporation, or Person*.

1. What is the threshold for reporting on Schedule F?

A Form 990 filer must complete:

- Schedule F, Part I if it had aggregate revenues or expenses of more than \$10,000 during the tax year from grantmaking, fundraising, business (including investments), and program service activities outside the United States;
- Schedule F, Part II if it provided more than \$5,000 of grants or assistance to any particular foreign organization or foreign government; and
- Schedule F, Part III if it provided more than \$5,000 of grants or assistance, in the aggregate, to foreign individuals.

These thresholds for completing Schedule F, Parts I, II, or III are described in Form 990, Part IV, lines 14b, 15, and 16, and the accompanying instructions.

2. What kind of foreign activities need to be reported in Part I of Schedule F?

Activities conducted outside the United States that need to be reported on Schedule F, Part I (if the applicable \$10,000 revenue or expense threshold is met) include grantmaking, fundraising, investments (other than financial accounts reported on Part V, lines 4a and 4b), unrelated trade or business, program services, and maintaining offices, employees, or agents. The United States is defined as including U.S. possessions for this purpose.

3. Does an organization report expenses on Schedule F if it sends Board members to Board meetings or to attend and speak at seminars and conferences outside the United States?

Yes, if the organization exceeds the \$10,000 revenue or expense threshold, it will need to report these activities in Part I of Schedule F, listing the region(s) in which the activities are conducted, the type of activities conducted in each region, and its total expenditures in each region. However, it will not need to report any of its Board members as “agents” in column (c) if all of them serve the organization as volunteers.

4. What expenditures are required to be reported in Part I, column (f) and how are such expenditures required to be tracked?

The Part I, column (f) instructions provide that an expenditure is to be reported if it is an employment-related expense, an occupancy expense, a grant, a bank or financial account fee, or a payment to an agent, if the employee, office, grantee, or agent is located outside the United States. Organizations might use different accounting procedures and practices to keep track of foreign expenses for financial statement purposes, so there may be a variation in how organizations account for or allocate direct or indirect costs relating to their foreign activities.

For the 2008 and 2009 tax years, the organization may use the method it used for its financial statements to report expenditures for Schedule F, Part I, column (f). For example, if under a university’s current accounting procedures, expenses associated with a study abroad program are not separately tracked, such expenses are not required to be included in Part I, column (f).

TIP: An organization might have no expenditures reportable in Part I, column (f), even though it is required to report an activity in Part I. For example, an organization that derives more than \$10,000 of revenue from a foreign activity must report the activity in Part I, even if it incurred no expenditures for that activity.

5. Should a payment that our organization made to a foreign government’s representative or agency that is located in the United States be reported in Part II of Schedule F?

Yes, if the payment is a grant over \$5,000. Grants to foreign governments should be reported in Schedule F, Part II, regardless of where the government agencies or representatives are located. For instance, a \$6,000 grant to a foreign embassy based in Washington, DC should be reported in Schedule F, Part II.

6. Should payments to U.S. citizens living abroad be reported in Part III of Schedule F? If so, do we need to list the names of recipients?

Such payments are to be reported in Part III if (1) the organization exceeds the \$5,000 threshold, (2) the payment is a grant and not compensation, and (3) the

recipient was living outside the United States at the time the organization distributed the grant(s) to the person. The organization is to report each type of grant or assistance in Part III, but in order to protect the confidentiality of individuals, should not report the names of individual persons who are grant recipients.

7. Should grants reported in Parts II and III of Schedule F be reported on the cash method of accounting?

The organization should use the same accounting method it uses in reporting expenses throughout the Form 990 (*i.e.*, the method checked in Part XI, line 1), whether cash or accrual. If the organization is reporting an accrued but unpaid expense in Parts II or III of Schedule F, it should report the anticipated manner of cash disbursement in Part II, column (f) and/or Part III, column (e).

8. Must revenues and expenses attributable to foreign investments be taken into account in determining whether the organization has more than \$10,000 from activities outside of the United States (*i.e.*, in answering Form 990, Part IV, line 14b)?

Yes, revenues and expenses from or attributable to foreign investments must be taken into account in answering Form 990, Part IV, line 14b, except those from or attributable to financial accounts reported on Form 990, Part V, lines 4a and 4b. In the case of indirect investments made through investment entities, the extent to which revenue or expenses are taken into account will depend upon whether the investment entity is treated as a partnership or corporation for United States tax purposes. The instructions require the reporting of activities conducted indirectly through joint ventures.

For example, an organization with an interest in a foreign partnership would need to take into account its share of the partnership's revenue and expenses in determining whether the \$10,000 threshold is exceeded. On the other hand, and consistent with the general treatment of separate corporations elsewhere on the Form 990, the organization need not take into account or report any portion of the revenues, expenses, or expenditures of a foreign corporation in which it holds an investment, provided that the corporation is treated as a separate corporation for United States tax purposes. See Q9, below, regarding the reporting of foreign investments.

9. How should foreign investments be reported in Part I?

For 2008 and 2009 tax years, the following rules apply.

- Investments should be reported on a region-by-region basis on Line 3, separately from other activities in the region.

- All investments in a particular region may be aggregated for this purpose. For example, all investments in South America may be reported together in one line.
- The organization may use the term “investments” to describe the foreign activity in column (d).
- In reporting investments in a region, only columns (a) and (d) must be completed; columns (b), (c), (e), or (f) need not be completed with respect to investments for these tax years.
 - Column (a) would reflect the region, as described in the instructions to Schedule F, of the investment.
 - The region of a foreign investment entity is determined by its legal domicile (country whose law governs the entity’s internal affairs).
 - In the case of a foreign pass-through entity such as a foreign partnership, an organization is not required to report the region of the underlying investments held by the pass-through entity, but may report the region based on the legal domicile of the foreign pass-through entity.
 - An organization need not report, as an investment activity in Schedule F, foreign investments indirectly held through a domestic (United States) pass-through entity, as the domicile of the pass-through entity is not a foreign location.

10. How should foreign program-related investments be reported in Part I?

Program-related investments are to be reported as and with program services, rather than as or with other types of investments. Thus, the special rules applicable to investments described in Q9 above do not apply to program-related investments.

11. Are foreign investments that are required to be reported on Schedule F also required to be reported on Schedule R?

Yes, if the foreign investment is in a related organization (generally a relationship involving more than 50% control by one party or the other) or certain unrelated foreign partnerships. For example, investment in a 51% owned foreign corporation by the filing organization would be reported on both Schedules F and R.

12. Does the Form 990-EZ contain similar reporting requirements regarding an organization’s foreign activities?

No. The Form 990-EZ reporting requirements regarding foreign activities did not change from prior years. However, Form 990-EZ filers are required to report whether they had an interest in or a signature or other authority over a foreign financial account (2008 Form 990-EZ, line 42b) and, if so, the name of the foreign country, as was the case in prior years. On the Form 990-EZ, foreign

activities may be reported among the major program service accomplishments, along with the amount of foreign grants. Filers must attach a schedule itemizing grants and similar amounts paid.